The Tax Picture

Act Now For Tax Savings Later

(NAPSA)—The average American must work 107 days to earn enough to pay federal, state and local taxes in 2012. Although nearly 30 percent of our wages go to taxes, many Americans do little in the way of tax planning.

Tax planning involves reviewing tax benefits and implications of your income, expenditures, investments and retirement plans. How can you maximize the benefits of each in the most tax-efficient way? Planning may also include taking a close look at your income tax return.

"It's never too late for tax planning," said TaxACT spokesperson Jessi Dolmage. "There are things you can do anytime of year to maximize your tax savings. But the earlier you start, the better."

Dolmage shares several ideas for your tax planning checklist this year and every year:

• Review your retirement plan. Can you contribute more in order to decrease your taxable income? If you don't have a retirement plan, consider starting a 401(k) or IRA. If you want to start an IRA, remember the tax differences between traditional and Roth IRAs. Avoid early withdrawals, which often involve additional taxes.

• Did you claim the standard deduction last year but have significant expenses for medical care, mortgage interest, state and local taxes, unreimbursed employee expenses, or charitable contributions? Review which expenses qualify in IRS Publication 17 at www.irs.gov and consider paying an additional mortgage payment or medical expenses before December 31, 2012. That extra payment could make it more advantageous to itemize deductions. Keep receipts and detailed documentation for all deductions throughout the year.

• Check tax return filing status options. You may qualify for more than one status, especially if you have qualified dependents. Changing your status may increase your standard deduction. IRS Publication 17 includes filing status and dependent criteria.

• Check your federal withholding, especially if you've married, had children, bought a home, earned investment income or made capital gains profit in 2012. Conventional wisdom says withhold just enough tax to meet your tax liability. Although withholding too much means a refund, you're also giving Uncle Sam an interest-free loan. Withhold too little and you'll owe taxes plus possible penalties and interest. You can change withholding anytime of year by submitting a revised Form W-4 to your employer. TaxACT Free Federal Edition offers a free withholding calculator and helps complete new W-4s at www.taxact.com.

A little tax planning now can help you save big on next year's tax return.

• Paying tuition? The American Opportunity Tax Credit is scheduled to expire after 2012, so take advantage now. If you'll be short of the $2,500 maximum credit amount by December 31, consider paying some of your 2013 spring tuition before year's end to make up the difference. Details about all education tax breaks, including the expanded student loan interest deduction, can be found at www.taxact.com/college-tax-whiz and in IRS Publication 970.

• If your will includes property, update the financial and family information and evaluate how scheduled tax changes will impact the value. The federal estate tax exemption for 2012 is $5.12 million, taxed at 35 percent. After 2012, the exemption will drop to $1 million, taxed at 55 percent.

Dolmage warns taxpayers to be prepared for last-minute tax law changes. "Seventy-seven tax breaks expired at the end of 2011," said Dolmage. "Congress will likely extend many of them after the presidential election, but we're not sure when. Regardless of when legislation passes, tax solutions like TaxACT will update their programs right away. You can get a head start and estimate your 2012 federal and state taxes free starting in October at taxact.com."

For more planning information, visit www.irs.gov and www.taxact.com/taxinfo. Do your federal return free and get free tax help at taxact.com. TaxACT guarantees your maximum refund and accuracy.